

B EXERCISES

- 4 E3-1B (Transaction Analysis—Service Company)** Brown is a licensed CPA. During the first month of operations of her business (a sole proprietorship), the following events and transactions occurred.

- April 2 Invested \$73,600 cash and equipment valued at \$32,200 in the business.
 2 Hired a secretary-receptionist at a salary of \$667 per week, payable monthly.
 3 Purchased supplies on account \$1,610. (Debit an asset account.)
 7 Paid office rent of \$1,380 for the month.
 11 Completed a tax assignment and billed client \$2,530 for services rendered. (Use Service Revenue account.)
 12 Received \$7,360 advance on a management consulting engagement.
 17 Received cash of \$5,290 for services completed for Calunga Co.
 21 Paid insurance expense \$253.
 30 Paid secretary-receptionist \$2,668 for the month.
 30 A count of supplies indicated that \$276 of supplies had been used.
 30 Purchased a new computer for \$14,030 with personal funds. (The computer will be used exclusively for business purposes.)

Instructions

Journalize the transactions in the general journal. (Omit explanations.)

- 4 E3-2B (Corrected Trial Balance)** The trial balance of Vista Company does not balance. Your review of the ledger reveals the following: (a) Each account had a normal balance. (b) The credit footings in Prepaid Insurance, Accounts Payable, and Advertising Expense were each understated \$500. (c) A transposition error was made in Accounts Receivable and Service Revenue; the correct balances for Accounts Receivable and Service Revenue are \$1,840 and \$12,060, respectively. (d) A credit posting to Property Tax Expense of \$380 was omitted. (e) A \$2,000 cash drawing by the owner was debited to Vista, Capital, and credited to Cash.

VISTA COMPANY		
TRIAL BALANCE		
APRIL 30, 2014		
	Debit	Credit
Cash	\$ 5,600	
Accounts Receivable	2,380	
Prepaid Insurance	900	
Equipment		\$ 9,600
Accounts Payable	6,000	
Property Tax Payable		1,200
Owner's Capital		4,900
Service Revenue		12,600
Salaries and Wages Expense		6,150
Advertising Expense	600	
Property Tax Expense	1,350	
	\$16,830	\$34,450

Instructions

Prepare a correct trial balance.

- 4 E3-3B (Corrected Trial Balance)** The trial balance of Cervantes Corporation, below, does not balance.

CERVANTES CORPORATION		
TRIAL BALANCE		
APRIL 30, 2014		
	Debit	Credit
Cash	\$11,824	
Accounts Receivable	10,480	
Supplies	5,934	
Equipment	12,200	
Accounts Payable		\$14,088
Common Stock		16,000
Retained Earnings		4,000
Service Revenue		10,400
Office Expense	8,640	
	\$49,078	\$44,488

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An examination of the ledger shows these errors.

1. Cash received from a customer on account was recorded (both debit and credit) as \$2,760 instead of \$3,660.
2. The purchase on account of a computer costing \$6,400 was recorded as a debit to Office Expense and a credit to Accounts Payable.
3. Services were performed on account for a client, \$4,500, for which Accounts Receivable was debited \$4,500 and Service Revenue was credited \$450.
4. A payment of \$190 for telephone charges was entered as a debit to Office Expenses and a debit to Cash.
5. The Service Revenue account was totaled at \$10,400 instead of \$10,560.

Instructions

From this information prepare a corrected trial balance.

- 4 E3-4B (Corrected Trial Balance)** The trial balance of Vail Co. does not balance.

VAIL CO. TRIAL BALANCE JUNE 30, 2014		
	Debit	Credit
Cash		\$ 1,650
Accounts Receivable	\$ 8,618	
Supplies	1,200	
Equipment	7,800	
Accounts Payable		5,600
Unearned Service Revenue	600	
Common Stock		10,000
Retained Earnings		2,038
Service Revenue		7,950
Salaries and Wages Expense	2,100	
Office Expense	1,380	
	<u>\$21,698</u>	<u>\$27,238</u>

Each of the listed accounts should have a normal balance per the general ledger. An examination of the ledger and journal reveals the following errors.

1. Cash received from a customer on account was debited for \$160, and Accounts Receivable was credited for the same amount. The actual collection was for \$610.
2. The purchase of a computer printer on account for \$850 was recorded as a debit to Supplies for \$850 and a credit to Accounts Payable for \$850.
3. Services were performed on account for a client for \$460. Accounts Receivable was debited for \$60 and Service Revenue was credited for \$460.
4. A payment of \$150 for internet charges was recorded as a credit to Office Expense for \$150 and a credit to Cash for \$150.
5. When the Unearned Service Revenue account was reviewed, it was found that service revenue amounting to \$200 was performed prior to June 30.
6. A debit posting to Salaries and Wages Expense of \$1,200 was omitted.
7. A payment on account for \$350 was credited to Cash for \$350 and credited to Accounts Payable for \$350.
8. A dividend of \$600 was debited to Salaries and Wages Expense for \$600 and credited to Cash for \$60.

Instructions

Prepare a correct trial balance. (Note: It may be necessary to add one or more accounts to the trial balance.)

- 5 E3-5B (Adjusting Entries)** The ledger of Chan Rental Agency on March 31 of the current year includes the following selected accounts before adjusting entries have been prepared.

	Debit	Credit
Prepaid Insurance	\$ 2,700	
Supplies	2,100	
Equipment	18,750	
Accumulated Depreciation—Equipment		\$ 6,300
Notes Payable		15,000
Unearned Rent Revenue		6,975
Rent Revenue		45,000
Interest Expense	—0—	
Salaries and Wage Expense	10,500	

An analysis of the accounts shows the following.

1. The equipment depreciates \$188 per month.
2. One-third of the unearned rent was recognised as revenue during the quarter.
3. Interest of \$375 is accrued on the notes payable.
4. Supplies on hand total \$637.
5. Insurance expires at the rate of \$225 per month.

Instructions

Prepare the adjusting entries at March 31, assuming that adjusting entries are made quarterly. Additional accounts are: Depreciation Expense; Insurance Expense; Interest Payable; and Supplies Expense.

- 5 E3-6B (Adjusting Entries)** Cheng, D.D.S., opened a dental practice on January 1, 2014. During the first month of operations the following transactions occurred.

1. Performed services for patients who had dental plan insurance. At January 31, \$375 of such services was performed but not yet billed to the insurance companies.
2. Utility expenses incurred but not paid prior to January 31 totaled \$260.
3. Purchased dental equipment on January 1 for \$40,000, paying \$10,000 in cash and signing a \$30,000, 3-year note payable. The equipment depreciates \$200 per month. Interest is \$250 per month.
4. Purchased a one-year malpractice insurance policy on January 1 for \$6,000.
5. Purchased \$800 of dental supplies. On January 31, determined that \$250 of supplies were on hand.

Instructions

Prepare the adjusting entries on January 31. Account titles are:

Accumulated Depreciation—Equipment	Interest Payable
Depreciation Expense	Prepaid Insurance
Service Revenue	Supplies
Accounts Receivable	Supplies Expense
Insurance Expense	Utilities Expense
Interest Expense	Utilities Payable

- 5 E3-7B (Analyze Adjusted Data)** A partial adjusted trial balance of Coy Company at January 31, 2014, shows the following.

COY COMPANY ADJUSTED TRIAL BALANCE JANUARY 31, 2014		
	Debit	Credit
Supplies	\$1,120	
Prepaid Insurance	3,840	
Salaries and Wages Payable		\$1,280
Unearned Revenue		1,200
Supplies Expense	1,520	
Insurance Expense	640	
Salaries and Wages Expense	2,880	
Service Revenue		3,200

Instructions

Answer the following questions, assuming the year begins January 1.

- (a) If the amount in Supplies Expense is the January 31 adjusting entry, and \$1,360 of supplies was purchased in January, what was the balance in Supplies on January 1?
- (b) If the amount in Insurance Expense is the January 31 adjusting entry, and the original insurance premium was for one year, what was the total premium and when was the policy purchased?
- (c) If \$4,000 of salaries was paid in January, what was the balance in Salaries Payable at December 31, 2013?
- (d) If \$2,560 was received in January for services performed in January, what was the balance in Unearned Revenue at December 31, 2013?

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5 E3-8B (Adjusting Entries) Dement is the new owner of Fung Computer Services. At the end of August 2014, his first month of ownership, Dement is trying to prepare monthly financial statements. Below is some information related to unrecorded expenses that the business incurred during August.

1. At August 31, Dement owed his employees \$2,280 in wages that will be paid on September 1.
2. At the end of the month he had not yet received the month's utility bill. Based on past experience, he estimated the bill would be approximately \$720.
3. On August 1, Dement borrowed \$36,000 from a local bank on a 15-year mortgage. The annual interest rate is 6%.
4. A telephone bill in the amount of \$140 covering August charges is unpaid at August 31.

Instructions

Prepare the adjusting journal entries as of August 31, 2014, suggested by the information above.

5 E3-9B (Adjusting Entries) Selected accounts of Conan Company are shown below.

Supplies			Accounts Receivable		
Beg. Bal.	1,200	8/31	712	8/17	12,100
				8/31	3,600
Salaries and Wages Expense			Salaries and Wages Payable		
8/15	2,600			8/31	2,100
8/31	2,100				
Unearned Service Revenue			Supplies Expense		
8/31	2,000	8/20	3,200	8/31	712
Service Revenue					
		8/17	12,100		
		8/31	3,600		
		8/31	2,000		

Instructions

From an analysis of the T-accounts, reconstruct (a) the August transaction entries, and (b) the adjusting journal entries that were made on August 31, 2014. Prepare explanations for each journal entry.

5 E3-10B (Adjusting Entries) Gonzalez Resort opened for business on June 1 with eight air-conditioned units. Its trial balance on August 31 is as follows.

GONZALEZ RESORT TRIAL BALANCE AUGUST 31, 2014		
	Debit	Credit
Cash	\$ 1,960	
Prepaid Insurance	440	
Supplies	260	
Land	2,000	
Buildings	12,000	
Equipment	1,600	
Accounts Payable		\$ 450
Unearned Rent Revenue		460
Mortgage Payable		6,000
Common Stock		9,100
Retained Earnings		890
Dividends	500	
Rent Revenue		7,620
Salaries and Wages Expense	4,480	
Utilities Expense	920	
Maintenance and Repairs Expense	360	
	<u>\$24,520</u>	<u>\$24,520</u>

Other data:

1. The balance in prepaid insurance is a one-year premium paid on June 1, 2014.
2. An inventory count on August 31 shows \$45 of supplies on hand.
3. Annual depreciation rates are cottages (10%) and furniture (15%). Salvage value is estimated to be 10% of cost.
4. Unearned Rent Revenue of \$380 was earned prior to August 31.

5. Salaries of \$38 were unpaid at August 31.
6. Rentals of \$80 were due from tenants at August 31.
7. The mortgage interest rate is 6% per year.

Instructions

- (a) Journalize the adjusting entries on August 31 for the 3-month period June 1–August 31.
- (b) Prepare an adjusted trial balance on August 31.

- 6 E3-11B (Prepare Financial Statements)** The adjusted trial balance of Decimal Co. as of December 31, 2014, contains the following.

DECIMAL CO. ADJUSTED TRIAL BALANCE DECEMBER 31, 2014		
Account Titles	Dr.	Cr.
Cash	\$ 6,590	
Accounts Receivable	15,618	
Prepaid Rent	1,200	
Equipment	31,800	
Accumulated Depreciation—Equipment		\$ 9,680
Notes Payable		12,500
Accounts Payable		11,601
Common Stock		20,000
Retained Earnings		3,619
Dividends	6,000	
Service Revenue		27,600
Salaries and Wages Expense	15,600	
Rent Expense	7,800	
Depreciation Expense	392	
Interest Expense	211	
Interest Payable		211
	<u>\$85,211</u>	<u>\$85,211</u>

Instructions

- (a) Prepare an income statement.
- (b) Prepare a statement of retained earnings.
- (c) Prepare a classified balance sheet.

- 6 E3-12B (Prepare Financial Statements)** Comp Corp. was founded by Kevin Flynn in January 2008. Presented below is the adjusted trial balance as of December 31, 2014.

COMP CORP. ADJUSTED TRIAL BALANCE DECEMBER 31, 2014		
Account Titles	Dr.	Cr.
Cash	\$ 2,500	
Accounts Receivable	35,600	
Supplies	7,100	
Prepaid Insurance	3,000	
Equipment	30,000	
Accumulated Depreciation—Equipment		\$ 12,000
Accounts Payable		17,600
Interest Payable		200
Notes Payable		10,000
Unearned Service Revenue		2,100
Salaries and Wages Payable		400
Common Stock		20,000
Retained Earnings		7,060
Service Revenue		53,600
Salaries and Wages Expense	25,600	
Insurance Expense	600	
Interest Expense	960	
Depreciation Expense	2,500	
Supplies Expense	7,100	
Rent Expense	8,000	
	<u>\$122,960</u>	<u>\$122,960</u>

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Instructions

- (a) Prepare an income statement and a statement of retained earnings for the year ending December 31, 2014, and an unclassified balance sheet at December 31.
- (b) Answer the following questions.
 - (1) If the note has been outstanding 2 months, what is the annual interest rate on that note?
 - (2) If the company paid \$26,400 in salaries in 2014, what was the balance in Salaries and Wages Payable on December 31, 2013?

- 7 E3-13B (Closing Entries)** The adjusted trial balance of Guevara Company shows the following data pertaining to sales at the end of its fiscal year, October 31, 2014:

Sales	\$320,000	Sales Returns and Allowances	\$9,600
Freight-out	\$4,800	Sales Discounts	\$6,000

Instructions

- (a) Prepare the sales revenues section of the income statement.
- (b) Prepare separate closing entries for (1) sales, and (2) the contra accounts to sales.

- 7 E3-14B (Closing Entries)** Presented below is information related to Crowe Corporation for the month of January 2014.

Cost of goods sold	\$361,000	Salaries and Wages expense	\$201,000
Freight-out	22,500	Sales discounts	31,000
Insurance expense	12,000	Sales returns and allowances	21,500
Rent expense	32,000	Sales	812,000

Instructions

Prepare the necessary closing entries.

- 6 E3-15B (Missing Amounts)** Presented below is financial information for two different companies.

	Hirsch Company	Ho Company
Sales	\$30,000	(d)
Sales returns	(a)	\$ 1,600
Net sales	27,000	31,600
Cost of goods sold	18,600	(e)
Gross profit	(b)	12,600
Operating expenses	5,000	7,600
Net income	(c)	5,000

Instructions

Compute the missing amounts.

- 7 E3-16B (Closing Entries for a Corporation)** Presented below are selected account balances for Kirby Co. as of December 31, 2014.

Merchandise Inventory 12/31/14	\$24,000	Sales	\$164,000
Common Stock	30,000	Cost of Goods Sold	90,280
Retained Earnings	18,000	Selling Expenses	6,400
Dividends	7,200	Administrative Expenses	15,200
Sales Returns and Allowances	4,800	Income Tax Expense	12,000
Sales Discounts	6,000		

Instructions

Prepare closing entries for Kirby Co. on December 31, 2014.

- 4 E3-17B (Transactions of a Corporation, Including Investment and Dividend)** Scott Loder opened Ledford Miniature Golf and Driving Range Inc. on March 1. The following selected events and transactions occurred during March.

- Mar. 1 Invested \$62,500 cash in the business in exchange for common stock.
- 3 Purchased Moises Moreno's Golf Land for \$47,500 cash. The price consists of land \$12,500; building \$27,500; and equipment \$7,500. (Make one compound entry.)
- 5 Advertised the opening of the driving range and miniature golf course, paying advertising expenses of \$2,000.
- 6 Paid cash \$1,850 for a one-year insurance policy.
- 10 Purchased golf equipment for \$3,125 from Moore Company, payable in 30 days.
- 18 Received golf fees of \$1,500 in cash.
- 25 Declared and paid a \$625 cash dividend.
- 30 Paid wages of \$1,125.
- 30 Paid Moore Company in full.
- 31 Received \$950 of fees in cash.

Ledford uses the following accounts:

Cash	Equipment	Service Revenue
Prepaid Insurance	Accounts Payable	Advertising Expense
Land	Common Stock	Salaries and Wages Expense
Buildings	Dividends	

Instructions

Journalize the March transactions.

- 8 *E3-18B (Cash to Accrual Basis)** June Murray, M.D., maintains the accounting records of Murray Clinic on a cash basis. During 2014, Dr. Murray collected \$285,200 from her patients and paid \$110,940 in expenses. At January 1, 2014, and December 31, 2014, she had accounts receivable, unearned service revenue, accrued expenses, and prepaid expenses as follows. All long-lived assets are rented.

	January 1, 2014	December 31, 2014
Accounts receivable	\$18,500	\$31,854
Unearned service revenue	5,680	8,222
Accrued expenses	6,870	4,216
Prepaid expenses	3,834	6,464

Instructions

Prepare a schedule that converts Dr. Murray's "excess of cash collected over cash disbursed" for the year 2014 to net income on an accrual basis for the year 2014.

- 4 8 *E3-19B (Cash and Accrual Basis)** Letterman Corp. maintains its financial records on the cash basis of accounting. Interested in securing a long-term loan from its regular bank, Letterman Corp. requests you as its independent CPA to convert its cash-basis income statement data to the accrual basis. You are provided with the following summarized data covering 2013, 2014, and 2015.

	2013	2014	2015
Cash receipts from sales:			
On 2013 sales	\$600,000	\$201,000	\$75,000
On 2014 sales	—0—	701,000	161,000
On 2015 sales			602,000
Cash payments for expenses:			
On 2013 expenses	360,000	42,000	25,000
On 2014 expenses	10,000 ^a	406,000	71,000
On 2015 expenses		21,000 ^b	451,000

^aPrepayments of 2014 expenses.

^bPrepayments of 2015 expenses.

Instructions

- Using the data above, prepare abbreviated income statements for the years 2013 and 2014 on the cash basis.
- Using the data above, prepare abbreviated income statements for the years 2013 and 2014 on the accrual basis.

- 5 9 *E3-20B (Adjusting and Reversing Entries)** When the accounts of David Nguyen Inc. are examined, the adjusting data listed below are uncovered on December 31, the end of an annual fiscal period.

- The prepaid insurance account shows a debit of \$7,200, representing the cost of a 2-year fire insurance policy dated August 1 of the current year.
- On November 1, Rent Revenue was credited for \$1,500, representing revenue from a subrental for a 3-month period beginning on that date.
- Purchase of advertising materials for \$1,000 during the year was recorded in the Advertising Expense account. On December 31, advertising materials of \$300 are on hand.
- Interest of \$850 has accrued on notes payable.

Instructions

Prepare the following in general journal form.

- The adjusting entry for each item.
- The reversing entry for each item where appropriate.

- 10 *E3-21B (Worksheet)** Presented below are selected accounts for Avacado Company as reported in the worksheet at the end of April 2014.

	A	B	C	D	E	F	G
		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Accounts	Debit	Credit	Debit	Credit	Debit	Credit
2	Cash	26,000					
3	Inventory	112,000					
4	Sales		801,000				
5	Sales Returns and Allowances	8,000					
6	Sales Discounts	21,000					
7	Cost of Goods Sold	468,500					

Instructions

Complete the worksheet by extending amounts reported in the adjusted trial balance to the appropriate columns in the worksheet. Do not total individual columns.

- 10** *E3-22B (Worksheet and Balance Sheet Presentation) The adjusted trial balance for Berkeley Co. is presented in the following worksheet for the month ended April 30, 2014.

BERKELEY CO. Worksheet (PARTIAL) For The Month Ended April 30, 2014							
	A	B	C	D	E	F	G
	Account Titles	Adjusted Trial Balance		Income Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit
2	Cash	\$12,180					
3	Accounts Receivable	21,316					
4	Prepaid Rent	3,560					
5	Equipment	36,510					
6	Accumulated Depreciation— Equipment		\$ 12,611				
7	Notes Payable		21,000				
8	Accounts Payable		9,654				
9	Common Stock		26,610				
10	Retained Earnings, April 1, 2014		2,000				
11	Dividends	12,000					
12	Service Revenue		37,591				
13	Salaries and Wages Expense	15,600					
14	Rent Expense	7,100					
15	Depreciation Expense		1,200				
16	Interest Expense	1,050					
17	Interest Payable		1,050				

Instructions

Complete the worksheet and prepare a classified balance sheet.

- 10** *E3-23B (Partial Worksheet Preparation) Leno Co. prepares monthly financial statements from a worksheet. Selected portions of the January worksheet showed the following data.

LENO CO. Worksheet (PARTIAL) For The Month Ended January 31, 2014							
	A	B	C	D	E	F	G
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
2	Supplies	5,200			(a) 1,500	3,700	
3	Accumulated Depreciation— Equipment		12,610		(b) 2,100		14,710
4	Interest Payable		600		(c) 100		700
5	Supplies Expense			(a) 1,500		1,500	
6	Depreciation Expense			(b) 2,100		2,100	
7	Interest Expense			(c) 100		100	

During February no events occurred that affected these accounts, but at the end of February the following information was available.

(a) Supplies on hand	\$2,150
(b) Monthly depreciation	\$2,100
(c) Accrued interest	\$ 100

Instructions

Reproduce the data that would appear in the February worksheet, and indicate the amounts that would be shown in the February income statement.